THE SKY'S THE LIMIT



CEC ENTERTAINMENT, INC.

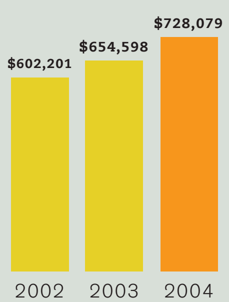
ANNUAL 2004 ★ REPORT

{ *And Form 10-K* }

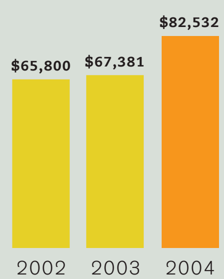
FINANCIAL HIGHLIGHTS

In 2004, CEC Entertainment, Inc. posted its ninth consecutive year of record revenues. Net income, earnings per share, and comparable store sales also rose over 2003 levels. During the year the company opened 29 new restaurant-entertainment centers, acquired 3 stores from franchisees, completed 120 remodels, store expansions and game rotations while also repurchasing $113.9 million in outstanding shares of common stock. These strategies are key components of the company's growth strategies and continue to drive long-term shareholder value.

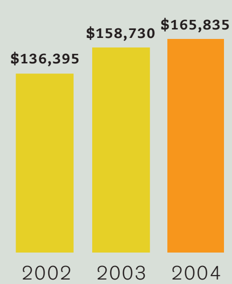
(Thousands, except per share and store data)	2004	2003	2002
OPERATING RESULTS			
Revenues	**$728,079**	**$654,598**	**$602,201**
Income before taxes	**133,765**	**110,098**	**107,572**
Net income	**$ 82,532**	**$ 67,381**	**$ 65,800**
EARNINGS PER SHARE			
Basic	**$2.22**	**$1.70**	**$1.58**
Diluted	**$2.15**	**$1.66**	**$1.55**
OTHER INFORMATION			
Total assets	**$612,017**	**$582,983**	**$537,251**
Long-term obligations (including current portion)	**100,808**	**84,259**	**77,211**
Shareholders' equity	**360,730**	**364,323**	**359,907**
CHANGE IN COMPARABLE STORE SALES			
Chuck E. Cheese's	**2.0%**	**(0.3%)**	**(1.0%)**
NUMBER OF RESTAURANTS AT YEAR END			
Company operated	**449**	**418**	**384**
Franchise	**46**	**48**	**50**
Total	**495**	**466**	**434**



REVENUES *(In Thousands)*



NET INCOME *(In Thousands)*



CASH PROVIDED BY OPERATIONS *(In Thousands)*



DILUTED EARNINGS PER SHARE

TO OUR SHAREHOLDERS:

Things Continue to Look Up for CEC Entertainment.

2004 was a good year for the company. We posted significant gains in revenues and earnings while strengthening our financial position and continuing to build on our brand leadership. Independent marketing research shows that our Chuck E. Cheese character is more popular among kids ages 6 to 8 than Mickey Mouse®, Barbie®, Barney®, Spiderman® and scores of other characters. Chuck E.'s popularity is also apparent among moms and dads, who brought their children to our restaurants in record numbers in 2004. Their more than 75 million guest visits built momentum that helped to make comparable store sales positive and played well into our long-term strategies for continued growth and increased shareholder value.

Increased Sales, Improved Performance.

For the year ended January 2, 2005, revenues increased 11.2 percent to $728.1 million from $654.6 million in 2003. Net income improved to $82.5 million from $67.4 million in the previous year, an increase of 22.5 percent. Diluted earnings per share were $2.15, a 30-percent increase versus 2003. When adjusted to exclude the estimated benefit of a 53rd week in fiscal year 2004 and a $4.25 million legal charge in 2003, earnings per share increased 18 percent compared with the prior year. Comparable store sales grew 2.0 percent in 2004 versus 2003. This is a particularly noteworthy improvement that we attribute both to the vitality of our Chuck E. Cheese's® concept and our ongoing program to update and evolve our restaurant-entertainment centers. During 2004, we also opened 29 new restaurants and acquired 3 restaurants from franchisees, growing our concept by about 8 percent, and bringing the total of company-owned Chuck E. Cheese's restaurants across the nation to 449. ↘

Investing in the Fun.

The Company's record of strong financial performance and a solid balance sheet afford us the flexibility to selectively and aggressively reinvest in our own unique brand of fun. During 2004, improved operating efficiencies and responsible fiscal management yielded operating cash flow of $165.8 million which we used to further strengthen our balance sheet and evolve our Chuck E. Cheese's concept. While maintaining a low debt-to-equity ratio, we also repurchased $113.9 million in outstanding shares of common stock. The stock buyback represents 8.2 percent of fully diluted shares outstanding. It also reflects our continued belief in the long-term prospects of the company which has doubled in market capitalization from $763 million to nearly $1.5 billion over the last five years — despite a less-than-robust economy. In 2004, we also invested $80.1 million directly back into the business — opening 29 new restaurants, acquiring 3 restaurants from franchisees and completing 120 remodels, expansions and game rotations. This represents nearly one of every four of our restaurant-entertainment centers in a 12-month period alone. The success of these remodels and new restaurants helped to drive increased revenues and improved same-store sales, and formed the basis of an aggressive capital plan that will take us through 2005 and beyond.

A Capital Plan With a Capital "C".

We are confident in our strategy to grow the concept through capital reinvestment. Our capital expenditure plan for 2005 underscores that confidence. We are committing approximately $30 million from operating cash flow to evolve Chuck E. Cheese's through an accelerated program of major remodels, interior and exterior refurbishments and game rotations. The program will impact 150 to 160 Chuck E. Cheese's and doubles the 2004 capital expenditure for existing restaurants. Exterior updates include signage with the new Chuck E. logo and facility enhancements that are more colorful and inviting. Major remodels in which the gameroom is expanded will typically receive updated signage, lighter and brighter decor and new games and attractions. In addition, we plan to open 30 to 35 new restaurants in 2005. ↘






CHUCK E CHEESE'S
2755








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CEC







Not “Why?” But “When?”.

Some may question the need for such an aggressive capital and growth plan, but we believe the question is not so much, “Why?,” as “When?” Our 27 years of experience has proven time and again that when we invest in improving our product and enhancing the overall Chuck E. Cheese’s experience, guests reward us with increased sales and frequency that drives success not just this year or next, but generation after generation.

More Fun = More Value = More Families.

An important component of our brand loyalty lies in the value proposition of our concept. Among today’s many entertainment choices for children, Chuck E. Cheese’s is unique. Our locations offer a safe, wholesome environment where families can dine and play together. We also provide tremendous value for the dollar. This makes Chuck E. Cheese’s accessible for most American families, and positions us as the Birthday Capital of the Universe® with more than 2 million parties hosted annually. Value is the key to guest frequency and we achieve it with a variety of in-store initiatives. Our value packages combine meals, drinks and tokens for a single price. We offer numerous free attractions — from our ever-popular Skytubes® to our live stage shows with Chuck E. Cheese and our star cast. Our “More Fun” sales initiative is a hallmark of our value programs. All games and rides require just one token and kids can choose from a better and wider selection of prizes. In 2004, we built on the popularity of “More Fun” with our “More Fun II” promotion. These seasonal traffic-builders promised a free token to every child who visited during the promotion. Our perceived value to parents is also evident in what we value — like education. We underwrite quality children’s educational programming, like PBS’ *Clifford the Big Red Dog*, *Barney*, *Arthur*, *Berenstain Bears*, and *Caillou*. We also offer free tokens for good grades. And in 2004, we joined with parent-teacher groups to help with fundraising efforts for books, equipment, supplies and field trips. Our “School Night” events not only increase traffic in our restaurants during traditionally slow week parts, but also help to build a sense of community and partnership with our key constituents. A percentage of the evening’s proceeds benefit the school’s fundraising cause. We are encouraged by early participation and response and plan to promote the program nationally in 2005. ↘

The Right Mix of Talent Makes Fun Work.

Ideas and initiatives are essential to our success, but it is the talent and commitment of our people that make our fun work — and our work fun. The commitment of our people is evident not only in the company's long-standing record of operational excellence, but also in the tenure of our management team at *every level*. Every one of our 400+ general managers has been promoted to the position. All of our 50+ district managers and regional managers — whose tenure exceeds 14 years — earned the promotion from within our own ranks. Our senior management team's tenure of 18 years is among the longest in the restaurant industry. From corporate headquarters to regional offices to 449 company-owned Chuck E. Cheese's store-fronts, our people have posted a remarkable record of loyalty and performance that is bested only by Chuck E. Cheese himself.

Seeing a Future Where the Sky's the Limit.

A beloved brand. A good product with loyal customers. Robust financial health. A tenured management team. An untiring commitment to evolve the concept. And the means and tenacity to execute our growth strategy with discipline and excellence. These are what drive long-term value for our shareholders. They are also what give rise to our excitement about what the next five years hold for the company. From our perspective, it's a future where the sky's the limit. ▪

WE LOOK FORWARD TO SHARING OUR PROGRESS WITH YOU,
AND THANK YOU FOR YOUR CONTINUED SUPPORT AND CONFIDENCE.





Richard M. Frank

RICHARD M. FRANK
Chairman, Chief Executive Officer

Michael H. Magusiak

MICHAEL H. MAGUSIAK
President

BOARD OF DIRECTORS

OFFICERS

RICHARD M. FRANK
Chairman of the Board/
Chief Executive Officer

MICHAEL H. MAGUSIAK
President

JOHN R. CARDINALE
Executive Vice President
Development and Purchasing

GENE CRAMM
Executive Vice President
Games, Entertainment,
Franchise and
Concept Evolution

MARK A. FLORES
Executive Vice President
Operations

RICHARD T. HUSTON
Executive Vice President
Marketing

THOMAS W. OLIVER
Executive Vice President
General Counsel

RANDY FORSYTHE
Senior Vice President
Operations, Northern Region

CHRISTOPHER D. MORRIS
Senior Vice President
Chief Financial Officer

SANDRA J. BROWN
Vice President
Payroll, Accounts Payable
And Inventory

KENNY L. BULLOCK
Vice President
Real Estate

JOE ELLIOTT
Vice President
Research And Development

MARSHALL R. FISCO, JR.
Vice President
Legal and Corporate Secretary

STEVEN HATTON
Vice President
Operations, Field Support

MICHAEL H. JOHNSON
Vice President
Purchasing

JAMES MABRY
Vice President
Controller
Treasurer

DON L. McKECHNIE
Vice President
Development, Real Estate Counsel

CATHERINE R. OLIVIERI
Vice President
Human Resources

AHMET ONER
Vice President
Management Information
Systems

LOIS F. PERRY
Vice President
Advertising

JON RICE
Vice President
Marketing

ODOM SHERMAN, JR.
Vice President
Taxes

JEFF S. SMITH
Vice President
Operations, Western Region

GARY SPRING
Vice President
Operations, Midwest Region

MARK WALLACE
Vice President
Operations, Southern Region

ALICE WINTERS
Assistant Corporate Secretary

The officers identified above are employed by CEC Entertainment, Inc. and its subsidiaries.

CORPORATE INFORMATION

EXECUTIVE OFFICES
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Irving, Texas 75015
972/258-8507

ANNUAL SHAREHOLDER MEETING
May 19, 2005
9:00 AM
Dallas / Fort Worth Airport Marriott South
4151 Centreport Drive
Fort Worth, Texas

STOCK TRANSFER AGENT
AND REGISTRAR
Mailing Address:
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PO Box 43023
Providence, RI 02940

Overnight Address:
EquiServe Trust Company N.A.
250 Royall St
Canton, MA 02021

Shareholder Services:
Telephone) 877/498-8865
Internet) www.equiserve.com

STOCK LISTING
The Company's common stock is traded on the New York Stock Exchange under the symbol "CEC."

INDEPENDENT AUDITORS
Deloitte & Touche, LLP
2200 Ross Avenue
Suite 1600
Dallas, Texas 75201

10-K AVAILABILITY
The company will furnish any shareholder, without charge, a copy of the Company's annual report filed with the Securities and Exchange commission on Form 10-K for the 2004 fiscal year (including the financial statements and schedules thereto) upon written request from the shareholder addressed to:

SECRETARY
CEC Entertainment, Inc.
4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015

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Squires & Company, Dallas

"Where a kid can be a kid"

CEC

entertainment, inc.

CEC ENTERTAINMENT INC.
2004 ANNUAL REPORT
(Narritave Portion Only)

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